



Office of Health Policy and Program Support
P.O. Box 720724
Sacramento, CA 94229-0724
Telecommunications Device for the Deaf - (916) 795-3240
Toll Free: (888) CalPERS (225-7377)
FAX 916) 795-4105

June 20, 2006

AGENDA ITEM 4 (REVISED)

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Second Reading – Potential 2007 Health Program Benefit Design
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Board approve the following benefit design changes beginning January 1, 2007:
 - A. For Blue Shield, Kaiser and Western Health Advantage basic plans:
 - 1. Increase office visit co-payments to \$15
 - 2. Increase emergency room co-payments to \$75 (waived if admitted as an inpatient or for observation as an outpatient)
 - 3. Introduce co-payment of \$100 per hospital inpatient admission
 - 4. Introduce ambulatory surgery co-payment of \$25
 - B. For PERS Choice basic plan and PERS Select basic plan (if adopted by the Board):
 - 1. Introduce co-payment of \$100 per hospital inpatient admission
 - C. For PERS Choice basic plan, PERSCare basic plan and PERS Select basic plan (if adopted by the Board):
 - 1. Increase emergency room co-payments to \$75 (waived if admitted as an inpatient or for observation as an outpatient)
 - 2. Expand and promote an urgent care network
 - 3. Establish an imaging pre-authorization process

IV. BACKGROUND:

At the May 16, 2006, Health Benefits Committee (HBC) meeting, staff proposed a set of benefit design options for CalPERS basic plans that help moderate premium increases and still maintain comprehensive benefits. Our proposal also provides our members with incentives to obtain care in the most cost effective, clinically beneficial setting.

Members of the HBC expressed concern about the impact increased cost sharing might have on our members and that these types of changes will create barriers to services resulting in members postponing needed care. The HBC is especially concerned about the impact of such changes on low income members and those with chronic conditions.

Staff identified two published studies that compare emergency room utilization and health outcomes for commercial and Medicare enrollees who experienced increases in emergency room co-payments:

- “Care-Seeking Behavior in Response to Emergency Department Copayments,” *Medical Care*, August 2005
- “Cost-Sharing for Emergency Care and Unfavorable Clinical Events: Findings from the Safety and Financial Ramifications of ED Copayments,” *HSR: Health Services Research*, 2006

We believe these studies address the Committee’s concerns about the impact of increased emergency room co-payments on members. The findings of both studies indicate significant declines in emergency room use, with no adverse health impacts. One study concludes “(w)hen faced with an ER co-payment, patients in the health system most commonly shifted toward seeking care from other available alternatives and rarely avoid medical care altogether.” In addition, another study found “the larger the ER co-payment or the larger the difference between ER and office co-payments, the more likely patients were to seek alternatives.”

CalPERS health plans were unable to find research that examines the impact of the other proposed changes on member behavior.

The remainder of this agenda item:

- presents the proposed benefit options, by plan, specifying the percent of premium impact for each benefit option
- analyzes the premium impact of proposed changes on employers and members
- recommends benefit design changes for Board adoption.

V. ANALYSIS:

HMO Basic Plan Design Options and Premium Impact

At the May 2006, HBC meeting, the Committee considered a proposal to increase the inpatient hospital co-payment from \$0 to \$250 per hospital admission and requested staff provide an alternative proposal to increase hospital co-payments from \$0 to \$100 per admit. The following table lists the proposed HMO basic plan design co-payment options, specifying the current and proposed co-payment amounts, resulting premium decrease for each option, and the impact these changes will have on annual premiums in 2007.

Basic Plan co-payment	Current	Proposed	% Premium Decrease			2007 Annual Premium Decrease ¹			
			Blue Shield	Kaiser	WHA		Blue Shield	Kaiser	WHA
Office Visit	\$10	\$15	1.41%	1.44%	1.02%	Single	\$65.28	\$63.12	\$43.20
						Two-party	\$130.56	\$126.24	\$86.40
						Family	\$169.73	\$164.11	\$112.32
Emergency Room	\$50	\$75	0.30%	0.14%	0.46%	Single	\$13.68	\$6.36	\$19.44
						Two-party	\$27.36	\$12.72	\$38.88
						Family	\$35.57	\$16.54	\$50.54
Hospital Inpatient	\$0	\$100	0.43%	0.16%	0.22%	Single	\$20.04	\$7.08	\$9.48
						Two-party	\$40.08	\$14.16	\$18.96
						Family	\$52.10	\$18.41	\$24.65
Ambulatory Surgery ²	\$0	\$25	0.01%	0.01%	0.07%	Single	\$0.60	\$0.60	\$2.88
						Two-party	\$1.20	\$1.20	\$5.76
						Family	\$1.56	\$1.56	\$7.49

¹ 2007 annual premium decreases shown in this table are estimated reductions from the 2007 "status quo" proposed premiums.

² Kaiser currently charges a co-payment of \$10 for ambulatory surgery. As a result, Kaiser based its premium savings on increasing the co-payment from \$10 to \$25.

Potential PPO Basic Plan Design Options and Premium Impact

The next table displays proposed PPO basic plan design co-payment options, the current and proposed co-payment amounts, the resulting premium decrease for each option, and the impact these changes will have on annual premiums in 2007:

Basic Plan co-payment	Current	Pro- posed	% Premium Decrease			2007 Annual Premium Decrease ¹			
			PERS Select ²	PERS Choice	PERS- Care		PERS Select ²	PERS Choice	PERS- Care
Emergency Room	\$50	\$75	0.12%	0.12%	0.07%	Single	\$5.88	\$6.00	\$5.88
						Two-party	\$11.76	\$12.00	\$11.76
						Family	\$15.29	\$15.60	\$15.29
Hospital Inpatient	\$0	\$100	0.16%	0.16%	n/a	Single	\$7.56	\$7.56	n/a
						Two-party	\$15.12	\$15.12	n/a
						Family	\$19.66	\$19.66	n/a

¹ 2007 annual premium decreases shown in this table are estimated reductions from the 2007 "status quo" proposed premiums.

² For scenario purposes only. PERS Select estimated savings calculated as the difference between PERS Choice 2006 and PERS Select proposed 2007 single premiums. Assumes PERS Select enrollment in each premium tier at 12.9 percent of PERS Choice.

In addition to the co-payment changes, staff is proposing two plan management initiatives for both Basic PPO plans:

1. **Requiring pre-authorization for imaging services.** Research (Georgetown University study co-sponsored by Blue Cross and the California Health Care Foundation) is beginning to show that equipment ownership rather than medical necessity is driving costs associated with certain expensive radiological services such as PET, CAT, MRI. More general practitioner and varied specialty providers are offering this service at higher costs. The intent of this initiative is to promote appropriate utilization of this very high cost benefit by requiring providers to obtain prior authorization. If a PPO participating provider fails to follow the pre-authorization process and retrospective review determines the service is not medically necessary, the provider is responsible for the resulting costs. If the member proceeds after a denial, the member is responsible for the bill. Members, however, can appeal denials.
2. **Expanding and promoting the urgent care center network.** Member costs for urgent care services are equivalent to an office visit – a \$20 co-payment for in-network providers and 40 percent co-insurance for out-of-network providers. Blue Cross is promoting its in-network urgent care centers with the current \$20 co-payment - compared to the potential \$75 emergency room co-payment. This provides members with a clear financial incentive to seek non-emergency care in the most cost-effective, clinically beneficial setting.

The next table displays proposed PPO basic plan management initiatives, the resulting premium decrease for each plan management initiative, and the impact these changes will have on premiums in 2007:

Basic Plan Management Initiatives	% Premium Decrease			2007 Annual Premium Decrease ¹			
	PERS Select ²	PERS Choice	PERS-Care		PERS Select	PERS Choice	PERS-Care ²
Imaging Pre-authorization	0.16%	0.16%	0.23%	Single	\$7.56	\$7.92	\$18.96
				Two-party	\$15.12	\$15.84	\$37.92
				Family	\$19.66	\$20.59	\$49.30
Urgent Care Network	0.11%	0.11%	0.07%	Single	\$5.28	\$5.40	\$6.12
				Two-party	\$10.56	\$10.80	\$12.24
				Family	\$13.73	\$14.04	\$15.91

¹ 2007 annual premium decreases shown in this table are estimated reductions from the 2007 "status quo" proposed premiums.

² For scenario purposes only. PERS Select estimated savings calculated as the difference between PERS Choice 2006 and PERS Select proposed 2007 single premiums. Assumes PERS Select enrollment in each premium tier at 12.9 percent of PERS Choice.

Impact on Members and Employers

The chart below shows the total impact of the staff recommended benefit design change by plan and the estimated savings for 2007:

Basic Plan	2007 Annual Benefit Option and Plan Management Initiative Savings (in millions) ¹						
	Office Visit	Emergency Room	Hospital Inpatient ²	Ambulatory Surgery	Imaging Pre-auth.	Urgent care network	Total Savings
Blue Shield	\$18.47	\$3.87	\$5.67	\$0.17	n/a	n/a	\$28.19
Kaiser	\$18.58	\$1.87	\$2.08	\$0.17	n/a	n/a	\$22.70
WHA	\$0.64	\$0.29	\$0.14	\$0.04	n/a	n/a	\$1.12
PERS Select ³	n/a	\$0.12	\$0.16	n/a	\$0.16	\$0.11	\$0.56
PERS Choice	n/a	\$0.99	\$1.24	n/a	\$1.30	\$0.89	\$4.41
PERSCare	n/a	\$0.13	n/a	n/a	\$0.41	\$0.13	\$0.67
Total Savings ^{4,5}	\$37.69	\$7.27	\$9.30	\$0.39	\$1.87	\$1.13	\$57.65

¹ 2007 annual premium decreases shown in this table are estimated reductions from the 2007 "status quo" proposed premiums.

² Reflects savings from increasing the hospital inpatient co-payment to \$100.

³ For scenario purposes only. PERS Select estimated savings calculated as the difference between PERS Choice 2006 and PERS Select proposed 2007 single premiums. Assumes PERS Select enrollment in each premium tier at 12.9 percent of PERS Choice.

⁴ The 2006 estimated total annual premium savings of \$60.1 million reported in May reflected an increase in the hospital inpatient co-payment to \$250.

⁵ Due to rounding, totals may not sum exactly.

The State of California and CalPERS' contracting agencies use a variety of methods to determine the employer contribution toward employee and annuitant monthly premiums. The employers' method determines who benefits from premium savings:

- For employers that contribute a percent of the total premium, both employers and employees will benefit in relation to percent each contributes toward the premium.
- For employers that contribute a flat amount that does not cover the full premium, only the employee benefits.
- For employers that contribute a flat amount that covers the full premium, only the employer benefits.

Contracting agency contributions vary, making it impossible to determine the benefit to members and employers. The following table specifies the distribution of premium savings between the state employer and state members for each proposed benefit design change:

Benefit Change	Employer Share of Premium Savings	Member Share of Premium Savings
Office Visit Copay (\$10 to \$15)	74%	26%
ER Copay (\$50 to \$75)	73%	27%
Hospital Inpatient (\$0 to \$100 per admit)	73%	27%
Ambulatory Surgery (\$0 to \$25)	72%	28%
Distribution Total	73%	27%

VI. RECOMMENDATION:

Staff developed its recommendation weighing CalPERS need to:

- maintain the viability of CalPERS Health Benefits Program
- moderate 2007 premium increases
- continue to provide competitive comprehensive benefits
- retain and attract contracting agency participation in the CalPERS Health Benefits Program
- incent our members to seek care in the most cost-effective, clinically beneficial setting (e.g., \$75 emergency room co-payment versus a \$15 (HMO) or \$20 (PPO) urgent care co-payment)

Staff recommends the Board approve the following benefit design changes, effective January 1, 2007:

A. For Blue Shield, Kaiser and Western Health Advantage basic plans:

1. Increasing office visit co-payments from \$10 to \$15
2. Increasing emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient)
3. Introducing a hospital co-payment of \$100 per inpatient admission
4. Introducing an ambulatory surgery co-payment of \$25

B. For PERS Choice basic plan and PERS Select basic plan (if adopted by the Board):

1. Introducing a co-payment of \$100 per inpatient hospital admission

C. For PERS Choice basic plan, PERSCare basic plan and PERS Select basic plan (if adopted by the Board):

1. Increasing emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient)
2. Expanding and promoting an urgent care network
3. Establishing an imaging pre-authorization process

VII. STRATEGIC PLAN:

This agenda item supports the Health Benefits Branch Three-Year Business Plan Goal to "develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers."

VIII. RESULTS/COSTS:

The "Impact on Members and Employers" section of this agenda item provides cost information.

Sandra Felderstein, Chief
Office of Health Policy and Program Support

Terri Westbrook
Assistant Executive Officer
Health Benefits Branch